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# **Debt Management Policies**

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## TABLE OF CONTENTS

PURPOSE.....	3
DEBT REFUNDING POLICY.....	4
VARIABLE RATE DEBT .....	6
DEBT MANAGEMENT POLICIES AND PROCEDURES.....	7
USE OF INTEREST RATE SWAPS.....	10
MAKING DEBT SERVICE AND SWAP PAYMENTS.....	14
INVESTMENT OF BOND PROCEEDS.....	15
SELECTING BOND COUNSEL.....	16
SELECTING FINANCIAL OR INVESTMENT ADVISORS.....	17
SELECTING LENDERS .....	18
SELECTING BOND UNDERWRITERS .....	19

## PURPOSE

- a) The following constitute the Debt Management Policies of the County of York, Pennsylvania, which consist of guidelines and directives applicable to the ongoing financing of capital expenditures and tax anticipation borrowings. Objectives of these policies include:
  - i) assuring that the County incurs debt only when appropriate, and with a long term perspective;
  - ii) minimize the interest rates and costs of issuance associated with County debt;
  - iii) minimize the length and total debt service cost over the life of a County debt issue; and
  - iv) preserve financing flexibility and debt capacity for future Boards of Commissioners.
- b) Adherence to written debt policies helps the County achieve and maintain a prudent debt burden and enhance credit quality and ratings of its public offerings. These debt policies should be reviewed periodically, and under the following circumstances:
  - i) provide guidance and direction for future elected or appointed County officials;
  - ii) provide direction and objectives for advisors retained by the County;
  - iii) create consistency among financial transactions and future borrowings;
  - iv) measure success in achieving long-term financial and budgetary objectives;
  - v) complying with post-issuance tax law, and disclosure and other securities law, requirements; and
  - vi) measuring or analyzing financial risk or exposure assumed by the County.
- c) These policies establish criteria for the use of debt and related instruments, create procedures and policies that minimize the County's debt service payments and issuance costs, achieve and maintain the highest practical credit rating, and maintain adequate financial disclosure and reporting. These policies are guidelines that shall be interpreted to allow for individual application, and in some cases modifications, under various financial climates and circumstances.
- d) Every borrowing or related financial transaction considered by the County shall be reviewed for compliance with these debt policies and any deviation from them shall be noted and approved specifically by the Board of Commissioners prior to closing on the proposed transaction.
- e) All debt incurred by the County shall be in accordance with the Pennsylvania Local Government Unit LGUDA ("LGUDA"), including the use of debt only for capital expenditures, tax and revenue anticipation borrowings ("TRANS") and refunding purposes.
- f) The County will adopt and periodically review a Capital Improvement Program ("CIP") identifying the condition and remaining useful life of the County's principal capital facilities and physical plant, and estimate the timetable, costs and priority for capital improvement projects during the next five years.
- g) A copy of these debt policies shall be provided to every underwriter, financial or investment advisor, bond counsel, solicitor and other professional engaged by the County to undertake or be involved in a financial transaction on the County's behalf.

## DEBT REFUNDING POLICY

- a) The County will consider refunding existing debt under the following circumstances:
  - i) Create net, present value debt service savings (the debt service payable on refunding bonds is less than that of the refunded bonds, after borrowing the costs of issuance);
  - ii) Eliminate unfavorable covenants or risk associated with bonds to be refunded, or related financial instruments;
  - iii) Change the mode or method of calculating interest expense; or
  - iv) Take advantage of market conditions, or to better implement the CIP.
- b) The County will consider restructuring existing debt (a refunding which will not result in present value savings), under the following circumstances:
  - i) Obtain temporary budgetary relief due to an unanticipated decline in revenues or increase in budgetary expenditures;
  - ii) Such relief is not required over a period of more than two consecutive fiscal years;
  - iii) The remaining useful life of the assets originally financed by the restructured debt are no less than the final maturity on the restructuring debt; or
  - iv) Retiring short term (interim) debt, such as a bank line of credit, with long term (permanent) debt, such as a fixed rate bond issue.
- c) All estimated costs and results of a refunding or restructuring shall be analyzed and presented to the County Commissioners in written, itemized form before voting on authorizing the transaction.
- d) A minimum net present value savings amount, as a percentage of the refunded principal amount, should be achieved on any refunding transaction (after using proceeds of the refunding bonds to pay all issuance and credit enhancement costs). Minimum saving guidelines for different refunding transactions are presented below. The savings shall be calculated net of all issuance costs and fees and applying a net debt service savings approach, using the yield of the refunding debt as the present value factor. Any deviations from these guidelines shall be noted, discussed in advance with and expressly approved by the Board of Commissioners:
  - i) Current Refunding (the refunded debt will be redeemed or retired within 90 days of the refunding debt issuance): A minimum of 3% net present value savings when the final refunded bond issue has 10 or more years remaining, and 2% when the final refunded bond issue has less than 10 years remaining.
  - ii) Advance Refunding (the refunded debt will be redeemed or retired greater than 90 days after the refunding debt issuance): A minimum of 4% net present value savings.
  - iii) Forward Refunding (the refunding bonds will be issued and the refunded debt will be redeemed or retired beyond 90 days after the transaction is entered into): A minimum of 5% net present value savings without having to base such savings on assumed, future market conditions. No forward refunding shall require the future issuance of variable rate debt.
- e) Because the level of risk will vary depending on the specific structure of the transaction and market conditions at the time of issuance, the County has the discretion to prescribe higher levels of target savings.

- f) The Commissioners will be consulted in each case regarding the timing of refunding savings: (i) as soon as possible (by reducing the principal that would otherwise be paid during the next fiscal year(s), (ii) annual savings in each year over the life of the refunding bonds, or (iii) keeping the annual payments approximately the same resulting in a reduction in the length of the refunding issue.
- g) In evaluating refunding opportunities and applying the above referenced guidelines, the County shall consider the following factors:
  - i) For an advance refunding, savings levels shall assume investing the refunding bond proceeds in a defeasance escrow made up of United States Treasury obligations, State and Local Government Series ("SLGs"). Any other lawful investments contemplated for the refunding escrow, such as open market treasury security purchases, Guaranteed Investment Contract, repurchase agreement, collateralized or insured bank certificates of deposits, or other securities authorized by the LGUDA ("Open Market Escrow") shall be separately analyzed and approved by the Commissioners prior to or separately from a vote on the principal transaction, and result in a commensurately higher level of minimum savings. The defeasance escrow securities shall be held by the refunded bonds paying agent or trustee, or another independent custodian. The appointment of the underwriter, bidding agent or other person charged with purchasing an Open Market Escrow shall be separately voted upon by the Commissioners after a written engagement letter or agreement for such services has been reviewed by the County's Solicitor or Bond Counsel. Securities contemplated for an Open Market Escrow shall be priced at fair market value following bona fide bids from at least three (3) qualified firms, or otherwise in accordance with federal tax law. Any Opinion of Bond Counsel on a transaction utilizing an Open Market Escrow shall specifically address such use.
  - ii) For current refunding the escrow or cash deposit shall be invested in accordance with the LGUDA.
  - iii) Forward refunding transactions for savings shall not require the issuance of the refunding debt more than two years after the transaction is approved.

## VARIABLE RATE DEBT

- a) Variable rate debt may be included in the County's debt portfolio, in limited amounts. Variable rate debt shall be used only for following purposes:
  - i) As an interim financing device (during construction draw periods or to accommodate multiple projects);
  - ii) As part of a strategy that coordinates variable debt service payments with variable revenue sources of the County; or
  - iii) As part of a prudent debt mix that takes advantage of lower interest rates at the short end of the interest rate yield curve.
- b) Variable rate debt exposes the County to risks not present with fixed rate debt.
  - i) Interest Rate Risk — The risk that interest rates will rise, on a sustained basis, above levels that would have been payable if the issue had originally been fixed.
  - ii) Liquidity Risk — The risk of having to pay higher fees to a liquidity and/or credit enhancement provider in the event of a failed remarketing of variable debt containing a tender option for the holder.
  - iii) Rollover Risk — The risk the County is unable to obtain a suitable replacement liquidity facility at an acceptable price to replace a credit facility upon termination or expiration of the contract period.
- c) To maintain these risks at manageable levels, the County will seek to limit the amount of its variable rate debt, with or without a hedging type derivative ("swap") to no more than 30% of its total debt portfolio.
- d) The County currently has in place variable rate debt, and associated variable to fixed rate swaps, exceeding the 30% limit described above. The County will continually monitor the termination costs of these swaps and may terminate some or all of them, including from the proceeds of fixed rate refunding debt, when it is determined by the Commissioners to be financially advantageous. Future issuances of variable rate debt by the County will be with the intention of maintaining the issue in the variable rate structure and not with the intention or expectation of immediately or in the short term entering into a future variable to fixed rate swap (so-called "synthetic fixed rate" debt).
- e) As required by the LGUDA, the interest rate payable on all variable rate debt or guarantees thereof by the County shall be capped. The maximum annual interest rate payable on any variable rate debt of the County shall be 25%, as limited by state law.

## **DEBT MANAGEMENT POLICIES AND PROCEDURES**

- a) The LGUDA controls the legal borrowing limits of the County.
- b) Debt Criteria
  - i) The County will issue debt only for the purposes of constructing or acquiring capital assets and for including major renovations or additions to existing capital assets that constitute capital projects under accounting standards, or when a series of capital projects included in the County's adopted or amended CIP will occur within three years of the issue date of the borrowing.
  - ii) The County will not construct or acquire a public facility without thoroughly analyzing the annual operation and maintenance costs of that facility.
  - iii) The County will maximize the use of pay-as-you go, annual capital budget financing to fund its CIP whenever feasible and practical.
  - iv) Growth in debt service obligations should be reasonably consistent with projected growth of County revenues.
  - v) In no case will any debt maturity exceed the useful life of the financed project, and in no case exceed 30 years.
  - vi) The County will examine four statistical measures to determine debt capacity and compares these ratios to other Pennsylvania counties, prevailing rating agency standards, and the County's historical ratios to determine debt affordability. In order to determine its relative debt position, the County will consider the following statistical measures:
    - 1) Debt per capita
    - 2) Debt to personal income
    - 3) Debt to taxable property value, and
    - 4) Debt service payments as a percentage of general fund revenues or expenditures
  - vii) County TRANs shall not be stated to mature more than 30 days after the date County revenue collections are projected to be sufficient to repay the same, but in no case later than on December 31 of the fiscal year in which the TRAN is issued. TRANs are not to be considered as an investment strategy simply to earn net interest income (arbitrage).
- c) Debt Structuring Practices
  - i) The County will maintain communications with major bond rating agencies regarding its financial condition and will follow a policy of full disclosure in every financial report and official statement provided to bond rating agencies, to professional service providers for bond issues and to investors. The County will meet all debt service obligations when due and payable and will comply with all federal tax law provisions, such as federal tax arbitrage and private use requirements.
  - ii) The County may use capitalized interest to offset or reduce debt service costs during a construction period not in excess of one year after the estimated date of completion of construction of the financed project.
  - iii) The County's total annual debt service shall be structured to result in an overall level or declining payment structure, including wrap-around financing.
  - iv) The County will monitor the market from time to time to determine if its variable rate debt and swap transactions remain cost effective.
  - v) The use of capital appreciation or zero coupon bonds shall generally be avoided, for refunding or capital project financings. Any proposal to use such structures shall be separately discussed and the risks and costs analyzed in public session prior to approval.

d) Debt Issuance Practices

- i) It shall be the responsibility of the County Administrator to coordinate the timing, process, and sale of the County debt required to support the ongoing CIP. The County Administrator shall consult with the Office of the County Treasurer and the Office of the County Controller as necessary to coordinate and accomplish the County's financing objectives.
- ii) Prior to any debt issuance, an analysis of market conditions and financing options will be conducted to determine the feasibility for entering the credit market at that time.
- iii) The County shall choose the method of sale of its bonds (competitive or negotiated) in light of financial and market conditions, considering an assessment of the different risks and benefits associated with each method. Written records shall be kept to document the process and reasons for selections.
- iv) Conduit debt issued for the benefit of a third party, or otherwise secured by a pledge of the County's taxing powers, shall have a clear, identified public purpose. All such transactions should be structured to insulate the County from risk of loss, and include a financial analysis by an independent professional showing the feasibility and risks associated with the transaction.
- v) Credit enhancements such as bond insurance or letters of credit may be utilized when the present value of the reduction in debt service resulting from such products is less than the up-front or projected periodic costs, using the applicable bond yield as the present value factor.
- vi) The County may participate in a pooled financing arrangement with other government entities when demonstrable cost or interest savings are reasonably expected to result.
- vii) The County will only enter into installment purchase agreements, financing leases and similar (non-debt) financial transactions after an analysis has been undertaken comparing the financing costs, risks and contract terms of such a transaction with a conventional borrowing for the same purpose. The County Solicitor or Bond Counsel will be asked to comment on the proposed terms of such transactions.

e) Securities and Tax Laws Compliance

- i) The County will provide clear, concise and up-to-date disclosure of its financial condition to rating agencies, investors, government agencies and other parties entitled to such information.
- ii) The County Administrator is responsible for providing and coordinating the continuing disclosure of financial information and operating data to the MSRB or SEC through "EMMA" or other established national or state information repositories, and for maintaining compliance with disclosure required by SEC Rule 15c2-12 and continuing disclosure undertakings entered into by this County. Such disclosures also shall meet standards promulgated by all state and national regulatory bodies, and security documents with lenders. Notices of material events listed in continuing disclosure undertakings of the County shall be filed with EMMA within 10 days of their occurrence.
- iii) The County Administrator is responsible for overseeing and coordinating with Bond Counsel compliance with Federal tax laws and rules governing tax-exempt debt, including arbitrage limits, limits on the private activity associated bond financed facilities and the timely expenditure of bond proceeds. Each capital project financing shall be preceded by the preparation of a monthly draw-down schedule illustrating the estimated project costs and the timing for expenditures of bond proceeds. Such information shall be included as an exhibit to the borrowing ordinance or other loan

documentation whenever possible. Any expected use or occupancy of tax-exempt bond financed facilities by a private person or entity, or by the Federal government, shall be analyzed in advance by Bond Counsel or other finance professional, and such use shall be continuously monitored. A report of the percentage or other measurement of private use of tax-exempt bond financed facilities shall be reported to the Commissioners at least annually. Every Bond Counsel opinion issued on County debt shall include a reference to the arbitrage status of the debt. Where private activity is involved, the bond counsel opinion shall specifically reference compliance with the IRS limitations on such use.

## USE OF INTEREST RATE SWAPS

- a) The County will exercise extreme caution on the use of debt related derivative products known as "swaps". A new swap, or an amendment to an existing swap, will be considered only after the Commissioners have had a thorough opportunity to be apprised of, and understand, the potential risks associated with these complex transactions.
- b) Any approval of a new or amended swap shall be preceded by the preparation of a new or revised Interest Rate Management Plan ("IRMP"), by an Independent Financial Advisor ("IFA"), serving as a fiduciary to the County, at least when required by the LGUDA. The IRMP shall be drafted in language understandable by the general public, disclosing in detail the terms, risks and potential outcomes of the transaction. This includes the proposed, underlying debt as well as the swap itself. The written engagement letter or agreement with the IFA and Swap Counsel shall be approved prior to authorizing a transaction.
- c) Any new or revised IRMP shall be reviewed by the County Administrator, Office of the County Controller and Office of the County Treasurer and distributed to the Commissioners at least three days prior to a vote on the ordinance approving a new or amended swap transaction. No vote on a new or amended IRMP shall take place without an opportunity for at least one meeting among the Commissioners, the IFA and any legal counsel retained to render an opinion on or document the swap transaction ("Swap Counsel"). These standards shall not apply to amendments to IRMPs resulting simply from transferring an existing swap to the corresponding refunding transaction.
- d) The total notional amount of all outstanding swaps (including swaps with delayed or conditional starting dates) entered into by the County shall not exceed 30% of the total general obligation debt then outstanding of the County. While the County's swap exposure exceeds 30%, it will gradually reduce such exposure as the Commissioners determine to be in the County's best interests.
- e) The County will not enter into a swap on debt to be issued in the future. An exception is a swap fully covered by the principal amount of short term debt currently outstanding, and long term debt incurred (but not yet issued) to refund such short term debt.
- f) The County may periodically assess the benefits of negotiating or competitively bidding financial products that are non-proprietary or generally available in the marketplace.
- g) When required by the LGUDA, any new or amended swap transaction shall be the subject of an independent review, analysis and written opinion by an IFA stating that the terms and conditions of the transaction, including rates, lump sum payments, security provisions (such as collateral) and termination consequences are fair and reasonable to the County as of the date and time the terms are accepted by the County. When not legally required by the LGUDA, the County will consider engaging an IFA on a case by case basis.
- h) All fees associated with a swap transaction (including the IFA, attorneys and any other third parties) and the estimated amount of the mark-up or spread receivable by the financial counterparty to the transaction, shall be clearly disclosed in dollars, conspicuously in the IRMP or another writing, at least three (3) days prior to the vote on the transaction. Any lump sum amounts payable by the swap provider, such as amounts to be used to pay initial fees and costs of the transaction, shall be paid directly to the County (or its depositary) and not directly to a third party service provider.

- i) Counterparty Risk Assessment
  - i) The County will only do business with highly rated counterparties or counterparties whose obligations are guaranteed by highly rated entities. The LGUDA requires the credit rating of any counterparty to be at least the third highest rating category from a nationally recognized rating agency.
  - ii) The LGUDA requires swap counterparties, or their guarantor, to be rated at least "A", or equivalent by any of the nationally recognized rating agencies (i.e. Moody's, Standard and Poor's, and Fitch). In addition, the counterparty must have a demonstrated record of successfully executing and terminating swap transactions in Pennsylvania.
- j) Swap Risks – The following risks shall be included in every IRMP (for the underlying debt as well as the swap itself):
  - i) Termination Risk — The risk that a swap will be terminated by the counterparty prior to maturity and the swap has a negative value, causing the County to owe a termination payment to the counterparty. The LGUDA generally prohibits optional terminations by the counterparty. All County swaps shall be terminable at any time at its option (subject to a termination payment by the applicable party).
  - ii) Basis Risk — The risk that a scheduled payment on the County's swapped bonds will exceed the corresponding swap receipts, e.g. a tax-exempt variable rate issue which trades at a spread over SIFMA (tax-exempt bond index) while the County receives a specified percentage of LIBOR (taxable bond index) under the swap.
  - iii) Tax Risk — This is a form of basis risk. It is the risk of lower federal tax rates (or other tax legislations) which causes the tax-exempt interest rates payable on the County's bonds to rise without an increase in the payments receivable on the swap (which are tied taxable interest rates unaffected by the change in legislation).
  - iv) Counterparty Risk — The risk that the counterparty bank is financially distressed and unable to make its ongoing or termination payments to the County under the swap.
  - v) Yield Curve Risk — On swaps where the County's payments to the counterparty are based on a short-term rate index and its receipts from the counterparty are based on a long-term rate index, the risk that the County will have to make net payments or a termination price when the interest yield curve is flat or inverted.
  - vi) Liquidity/Remarketing Risk — The risk that the County cannot secure a cost-effective renewal of a Liquidity Facility or Letter of Credit required to support an existing or future variable rate bond issue tied to a swap. It also includes the inability to find new buyers of bonds tendered by a variable rate bondholder, resulting in a higher contractual interest rate payable on the bonds held by the liquidity provider.
  - vii) Market Access Risk — The risk that bonds required to be issued, or remarketed to a new mode, in the future to support an existing or forward starting swap cannot be cost effectively issued.
- k) Treatment of Payments Receivable on County Swaps
  - i) The Commissioners shall establish or provide guidance to the County Administrator on the dollar amount of any lump sum payments (to or from the counterparty) resulting from a new swap, an amendment to an existing swap or a termination of an existing swap.
  - ii) The lump sum payments to the County resulting from a swap termination or amendment shall only be applied to pay debt service on outstanding County debt. Whenever possible, the payment shall be applied to debt service due on the bonds that related to that particular swap or, in the case of an amendment, to the future termination price of the amended swap or of other County swaps.

i) Legal and Contractual Requirements

Unless otherwise approved by the County, it will use standard ISDA swap documentation including a Master Agreement, and a Schedule to the Master Agreement which may be used for additional swaps with that counterparty. A Confirmation shall be prepared for each particular transaction. The County may use additional documentation if the product is proprietary or the County deems in its sole discretion that such documentation is otherwise in its interest.

m) Pennsylvania Legal Authorization and Requirements

County swaps must relate to debt “incurred” by the County, as defined in the LGUDA. The swap documents must contain the following provisions:

i) Termination

The agreement must contain a termination provision granting the County the right to optionally terminate a swap agreement at any time over the term of the agreement. In general, exercising the right to terminate an agreement should produce a benefit to the County, either through the receipt of a payment resulting from a termination or, if the termination payment is made by the County, in conjunction with a conversion to a more desirable form of debt obligation, as determined by the County.

ii) Collateral

As part of any swap documents, the County may require collateralization or other forms of credit enhancements to secure any or all swap payments from the counterparty, as deemed appropriate by the County and its IFA, and under the following guidelines:

- 1) The counterparty may be required to post collateral initially or if its credit rating, or that of its guarantor, falls below a level established by the County, at the advice of the IFA, under the swap documents.
- 2) Such collateral shall be deposited with a third party custodian.
- 3) The securities making up the collateral shall consist of cash, government treasuries or federal agency securities, as determined by the IFA.
- 4) The County shall not agree to post collateral under any circumstance.

iii) Limitations on Termination Exposure to a Single Counterparty

- 1) In order to diversify the County's counterparty credit risk, and to limit the County's credit exposure to any one counterparty, limits may be established for each counterparty based upon both the credit rating of the counterparty as well as the relative level of risk associated with each existing and proposed swap transaction.
- 2) In addition, if the exposure limit will be exceeded by proposed, new transaction, the County shall conduct a review of the exposure limit applicable to such counterparty. The County, in consultation with its IFA, shall explore remedial strategies to mitigate this exposure.

iv) Ongoing Management

As required by the LGUDA, the County must contract with a third party to receive continuing monitoring and reporting of interest rate risk, basis risk, termination risk,

credit risk, market-access risk, and other risks associated with the outstanding swaps, and make appropriate disclosures in its annual financial statements. The County Administrator is charged with engaging an experienced company to perform this function, monitor the results, and report to the Commissioners on a regular basis, but not less than annually, as to the reported findings. Any proposals for new or amended swaps shall be presented to the Commissioners directly.

Such reporting shall include the following:

- 1) A listing and description of all outstanding swaps, including applicable debt, swap and debt rates or amounts payable and receivable, notional amounts, effective dates, and scheduled termination date.
- 2) Termination value or cost.
- 3) Current credit rating (including any recent notable change) of each counterparty and the County.
- 4) If applicable, information concerning any actual or potential default by a counterparty and financial impact to the County, if any.

## **MAKING DEBT SERVICE AND SWAP PAYMENTS**

- a) The County shall manage its general fund and sinking funds in a manner that assures timely and accurate payment of principal and interest on its outstanding debt, in conjunction with related swap payments and receipts. Invoices for debt and swap payments shall be sent to the County Administrator, who will forward the same to the County Treasurer's office. Records of such payments and billings shall at all times be available to the office of the County Controller. The County will undertake the following, in accordance with the LGUDA and the specific terms of each transaction:
  - i) Invest any money held in sinking funds by it until the payment due date, including the use of electronic fund transfer.
  - ii) The County shall request lenders, trustee and paying agent in a financial transaction to invoice the County for payments due a minimum of 15 business days prior to the due date.
  - iii) If payment must be made by check, the County will deliver the check no more than five (5) days prior to the payment date through a guaranteed delivery service.
  - iv) The County will enter into written agreements with paying agents or trustees on bond issues describing the scope of services and liability of the other party, the duties of the County and the compensation structure.

## INVESTMENT OF BOND PROCEEDS

### a) Purchase and Sale of Investments

The County Administrator, in consultation with the County Treasurer, may direct the investment of bond proceeds in accordance with the LGUDA or, when applicable and legally authorized, in permitted investments described in the documents securing the debt issue. The County will typically utilize the services of an Investment Advisor ("IA"), which also may be the custodian of other County funds and investments. The County will have written services contracts with each IA, describing the professional services to be rendered, responsibilities of each party and compensation structure.

Whenever practical, the County shall competitively bid the purchase of securities, investment agreements, float contracts, forward purchase contracts and any other investment products used to invest bond proceeds. Compliance shall be maintained with the LGUDA and all other applicable Federal, State, and contractual restrictions regarding the use and investment of bond proceeds. This includes compliance with restrictions on the types of investment securities allowed, restrictions on the allowable yield of some invested funds as well as restrictions on the time period over which some bond proceeds may be invested. Structured investment products may be utilized with the advice of an experienced IA.

SLGs used in conjunction with advance refunding bond issues need not be competitively bid. Other types and terms of securities or products used in advance refunding transactions, including the manner of purchase, shall be approved in advance by the County's Bond Counsel.

### b) Investment Duration

Investments of bond proceeds shall reflect the monthly draw schedule for each project prepared or approved by the County, and furnished to the IA. Whenever possible, such draw schedule or project cost estimates shall be included in the ordinance or other action adopted by the Commissioners when the debt is approved.

### c) Fee Disclosure

It shall be required that all fees (in expected dollars) of the IA or resulting from investment services or sale of products to the County be fully disclosed in writing to ensure that there are no conflicts of interest and investments are being purchased at a fair market price. The IA shall document the bidding process and results and shall certify in writing that a competitive and fair market price was received in compliance with all state and federal laws.

## SELECTING BOND COUNSEL

- a) Selection of the Bond Counsel should be based on the following.
  - i) Reputation and experience of the firm with financings of the County or comparable issuers, and financings of similar size, types and structures in Pennsylvania.
  - ii) Knowledge and experience in federal tax law.
  - iii) Experience of the firm with and its approach to applicable federal securities laws and regulations.
  - iv) Experience and reputation of assigned personnel.
  - v) Quoted fees and expenses.
  - vi) Firm size and financial security.
  - vii) Limits on applicable professional errors and omissions insurance coverage.
- b) Bond Counsel will be expected to provide all professional services necessary for the authorization, sale and issuance of each tax-exempt debt offering, including but not limited to the following.
  - i) Assistance with the structuring of the proposed debt issue, including attending at least one working group meeting with the County Administrator.
  - ii) Preparation of the required legal notices and coordination with local newspapers and the County Solicitor so as to insure that proper notification is given under the LGUDA and the Pennsylvania Sunshine Law.
  - iii) Assistance with the preparation of the Debt Statement and Borrowing Base Certificate of the County.
  - iv) Drafting of the County Ordinance or Resolution authorizing the issuance and sale of the debt obligations.
  - v) Review of the Official Statement, including the drafting of language describing the County bonds and the tax implications of ownership of the bonds.
  - vi) Review of the underwriter's bond purchase contract or the proposed Invitation to Bid and Bid Form.
  - vii) Assembling and filing of the requisite documents and proceedings with the DCED under the LGUDA.
  - viii) Attendance at any meetings of the County Commissioners at which debt is authorized or sold.
  - ix) Assistance in obtaining credit ratings.
  - x) Preparation of bond closing documents, including Tax Certificate, IRS Form 8038-G and any and all other documents needed to accomplish the closing.
  - xi) Drafting of and advice with respect to continuing disclosure undertakings of the County (but not the ongoing filings unless separately and specifically engaged in writing by the County to do so).
  - xii) Drafting of the bond forms, arranging for printing or preparation of the bonds and coordination with the Depository Trust Company and the Underwriter.
  - xiii) Supervision of bond closings.
  - xiv) To the extent requested by the underwriter, the rendering of supplemental opinions as to the accuracy of those portions of the Official Statement provided by Bond Counsel and whether the Bonds are exempt from registration under federal securities law.
  - xv) Assembly of bound sets or CDs of closing documents for each issue to be provided to the County, the County Solicitor, the IFA, the Paying Agent and the Underwriter.
  - xvi) Assistance with any additional documentation required in issuing Build America Bonds.

## **SELECTING FINANCIAL OR INVESTMENT ADVISORS**

- a) Financial Advisors on debt issuances as well as IFAs and IAs may be selected, from time to time, to advise the County on various transactions, based on the following criteria:
  - i) Reputation and reported experience in representing Pennsylvania issuers.
  - ii) Knowledge and experience in structuring and analyzing complex debt issues.
  - iii) Ability to conduct competitive selection processes to obtain investment products and financial services.
  - iv) Experience and reputation of assigned personnel.
  - v) Fees and expenses.
  - vi) Firm size and financial security
  - vii) limits on applicable professional errors and omissions insurance coverage
- b) Services provided to the County may include the following:
  - i) Evaluation of risks and opportunities associated with a particular debt issuance or swap transaction.
  - ii) Monitoring of the debt portfolio and bond proceeds investments to alert the County to opportunities to refund or restructure bond issues or modify investments.
  - iii) Evaluation and recommendation regarding proposals submitted by investment banking firms or counterparties.
  - iv) Structuring and pricing bond issues, financial instruments and investments.
  - v) Preparation of requests for proposals as requested by the Commissioners for the selection of providers for bond counsel, underwriters, remarketing agents, letter of credit banks, investment products, financial products and other services (trustee and paying agent services, printing, credit facilities, remarketing agent services, investment management services, custody services etc.).
  - vi) Provide advice, assistance and preparation for presentations with and monitoring by rating agencies and investors.
  - vii) Every IFA retained by the County in connection with a swap transaction shall (i) be generally recognized in the Pennsylvania municipal bond community as having expertise and past experience in negotiating the terms, and/or pricing, of interest rate swaps and debt instruments, (ii) demonstrate the existence of errors and omissions insurance coverage of at least \$2,000,000 that would apply to the rendering of such services and (iii) not be the subject of a complaint or indictment filed in a criminal or administrative proceeding relating to such products.

## SELECTING LENDERS

Bank loans and lines of credit may be utilized by the County, as interim financing prior to a bond issue, or as a substitute for permanent bond financing. In general, the County Administrator will be charged (with or without the advice of a financial advisor) to solicit loan proposal from banks having a presence in the County. When appropriate, proposals will be sought from larger money center banks or institutions offering particular financial products sought by the County. The following matters will be considered in selecting a lender.

- i) Interest rate and terms offered by the lender including maximum rate on variable rate transactions, frequency of adjustment, bank fees or reimbursements, use and cost of bank counsel, prepayment rights, provisions for advancing funds and security required.
- ii) Contributions to, and presence in, the local community.
- iii) Past relationship with the County and satisfaction with service.
- iv) Attentiveness and knowledge of the local representatives.

## SELECTING BOND UNDERWRITERS

- a) The Underwriter(s) may sell the County's bonds to investors at a negotiated price. In addition, the Underwriter(s) may provide ideas and suggestions with respect to structure, timing and marketing of the bonds being sold. The Underwriter does not serve as fiduciary to the County unless expressly specified in writing, and acts in the best interests of that company or financial institution. Selection of the Underwriter(s) should be based on the following.
  - i) Experience of the firm and the individuals assigned to the County, and the identification and experience of the individual in charge of day-to-day management of the bond sale.
  - ii) A description of the firm's bond distribution capabilities including the experience of the individual primarily responsible for underwriting the proposed bonds.
  - iii) An understanding of the County's financial situation, including ideas on how the County should approach financing issues such as bond structures, credit rating strategies and investor marketing strategies.
  - iv) Knowledge of local political, economic, legal or other issues that may affect the proposed financing.
  - v) Access to sources of current market information to provide bond pricing data before, during and after the sale.
  - vi) The amount of uncommitted capital available and the ability and willingness of the firm to purchase the entire offering of the County, if necessary, in the case of a firm underwriting.
  - vii) Any contractual arrangements of the firm that could present a real or perceived conflict of interest.
  - viii) Proposed underwriting discount or spread, and related fees and expenses.
- b) When considering a bond issue, the County shall strive for the best balance between the yield for each maturity and the underwriters' compensation, which includes the takedown (sales commission), management fee, underwriting risk and expenses. The following practices shall be followed to improve the pricing process:
  - i) Communicate to the Underwriter specific goals to be achieved in the pricing of bonds and expectations regarding the roles of each member of the financing team, including the issuer and any financial advisor hired to assist in the pricing process. The County Administrator has authority to make key decisions between weekly meetings of the Commissioners and shall be consulted throughout the bond pricing process.
  - ii) Develop an understanding of prevailing market conditions, evaluate key economic and financial indicators, and assess how these indicators likely will affect the outcome of the bond pricing.
  - iii) Work with the Underwriter to secure the best rating on the issue, including considerations regarding the purchase of bond insurance.
  - iv) The County shall give clear directions to Underwriters on how bonds should be allocated, consider how policy goals influence the pricing process, and review any "Agreement Among Underwriters" prior to the sale to ensure that it incorporates the County's goals.
  - v) The County Administrator shall approve all information that will be sent out by the underwriter including disclosures to each rating agency and bond insurer, the preliminary official statement and financial statements.
  - vi) Quote, or estimate, the level of up-front costs of issuance, including the Underwriters' discount and professional fees, in dollar as well as percentage terms.

